

Message Text

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42

ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AGR-10 CEA-01 CIAE-00 DODE-00

EB-07 FRB-01 H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00

NSC-05 PA-02 AID-05 CIEP-02 SS-15 STR-04 TAR-01

TRSE-00 USIA-15 PRS-01 SP-02 FEAE-00 OMB-01 IO-10

XMB-04 SAM-01 /131 W

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R 061645Z JUN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1745

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM JWQWI

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 08650

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING JUNE 6

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BEGIN SUMMARY: FOR ABOUT THE LAST TWO MONTHS THE BRITISH

GOVERNMENT AND ITS MINISTERS HAVE BEEN CONCENTRATING ON THE REFERENDUM ISSUE WHILE THE ECONOMY HAS BEEN DETERIORATING, MARKED BY ACCELERATING WAGE-PUSH INFLATION AND DEEPENING RECESSION. NOW WITH THE REFERENDUM OVER, ATTENTION WILL TURN FULLY TO THE ECONOMIC CRISIS. IN LONDON, AT LEAST, FEELING IS STRONG THAT NEW, TOUGHER POLICY MEASURES WILL COME IN THE NEXT 2 - 3 MONTHS. INFLATION CONTINUES WITH WAGE INCREASES ITS PRIMARY CAUSE. AT THE SAME TIME, THE SLIDE INTO RECESSION WITH MOUNTING UNEMPLOYMENT CONSTRAINS POLICY ACTIONS. INDUSTRIAL RELATIONS REMAIN CHAOTIC; AT PRESENT FORD AUTO PRODUCTION IS CUT DRASTICALLY BY STRIKES, A NATIONAL RAIL STRIKE (WHICH COULD SLOW ECONOMIC ACTIVITY MARKEDLY) IS SCHEDULED FOR JUNE 23, AND WAGE TALKS WITH SEAMEN AND GAS BOARD STAFF ARE AT A STANDSTILL. BECAUSE OF RECESSION THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS IS STRENGTHENING, PARTICULARLY THE NON-OIL TRADE ACCOUNT, AS IMPORTS ARE OFF WHILE EXPORTS HAVE HELD THEIR OWN (DESPITE INFLATION). BUT THERE IS DOWNWARD PRESSURE ON THE POUND, RESULTING MAINLY FROM A DIFFERENTIALLY HIGHER INFLATION RATE, WHICH MANIFESTED ITSELF IN A RECORD LOW AVERAGE-TRADE-WEIGHTED DEPRECIATION IN MID-MAY AND A SIGNIFICANT LOSS OF RESERVES DURING MAY. END SUMMARY

1. FOREIGN EXCHANGE RESERVES. INTERVENTION IN SUPPORT OF STERLING DURING MAY COST THE UK \$641 MILLION IN RESERVES. RESERVES NOW STAND AT ABOUT \$6.5 BILLION.

2. BUSINESS CONFIDENCE. THE MONTHLY FINANCIAL TIMES (FT) SURVEY OF BUSINESS OPINION CONTINUES TO SHOW THAT BUSINESS CONFIDENCE IS LOW, THAT CAPITAL EXPENDITURE WILL FALL MARKEDLY THIS YEAR, THAT UNEMPLOYMENT WILL INCREASE, AND PRICES (AND COSTS) ARE EXPECTED TO CONTINUE TO RISE RAPIDLY. THE FT SURVEY INDICATES THAT INVENTORY LEVELS ARE EXPECTED TO CONTINUE TO FALL AND THAT ORDERS ARE NOW FALLING OFF RAPIDLY IN CAPITAL GOODS INDUSTRIES. A LARGE MAJORITY OF RESPONDENTS -- AND A LARGER MAJORITY THAN THE PREVIOUS SURVEY -- SEE EXPORT PROSPECTS AS STRONG.

3. CAPITAL EXPENDITURE. REAL EXPENDITURE BY MANUFACTURERS UNCLASSIFIED

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ON NEW PLANT AND EQUIPMENT FELL BY 8 PERCENT IN THE FIRST QUARTER OF 1975 OVER THE FINAL QUARTER OF 1974. OF THIS TOTAL, EXPENDITURE ON NEW PLANT AND EQUIPMENT FELL BY 5 PERCENT AND THAT ON VEHICLES BY 20 PERCENT. MOST FORECASTS AND INTENTIONS SURVEYS INDICATE A DECLINE IN INVESTMENT EXPENDITURE THROUGH 1975 AND INTO 1976, RESULTING FROM THE RECESSION, THE FINANCIAL SQUEEZE OF INFLATION ON COMPANIES, AND UNCERTAINTY.

4. INVENTORIES. FIRST QUARTER PRELIMINARY FIGURES INDICATE THAT INDUSTRY INVENTORIES OF RAW MATERIALS AND FUELS FELL BY OVER 100 MILLION POUNDS WHILE MANUFACTURERS INVENTORIES OF FINISHED GOODS ROSE BY ALMOST 100 MILLION POUNDS INVENTORIES OF GOODS AT THE RETAIL LEVEL FELL SLIGHTLY.

5. HOUSING. PRIVATE HOUSING STARTS SHOWED A STRONG UPWARD MOVEMENT IN THE 3-MONTH PERIOD FEBRUARY TO APRIL, RISING 41 PERCENT OVER THE PREVIOUS 3 MONTHS, AND 14 PERCENT OVER SAME PERIOD LAST YEAR. PUBLIC SECTOR HOUSING STARTS ROSE ONLY MODESTLY, HOWEVER. THE STRONG FLOWS OF FUNDS INTO BUILDING SOCIETIES IS CITED AS ONE REASON FOR THIS TREND.

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6. EXCHANGE RATE AND GOLD:

	5/29	6/5	CHANGE
EXCHANGE RATE	\$2.3170	\$2.3225	UP \$0.0055

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EFFECTIVE DEPRECIATION

	(PERCENT) 5/29	6/5	CHANGE
	24.8	24.6	NARROWED 0.2
GOLD	\$168.25	\$165.25	DOWN \$3.00

7. FORWARD DISCOUNT ON STERLING:

	5/29	6/5	CHANGE
1 MONTH	0.93	0.80	DOWN 0.13
3 MONTHS	2.90	2.55	DOWN 0.35
6 MONTHS	5.90	5.40	DOWN 0.50

(ALL FIGURES IN CENTS)

8. EURODOLLAR INTEREST RATES:

	5/29	6/5	CHANGE
1 MONTH	5-3/8	5-7/8	UP 1/2
3 MONTHS	5-7/8	6-1/4	UP 3/8
6 MONTHS	6-7/8	7-1/8	UP 1/4

9. LOCAL AUTHORITY DEPOSIT RATES:

	5/29	6/5	CHANGE
1 MONTH	9-9/16	9-3/8	DOWN 3/16
3 MONTHS	10-1/16	10	DOWN 1/16
6 MONTHS	10-7/16	10-3/8	DOWN 1/16

10. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 10 PERCENT ON FRIDAY, JUNE 6, 1975.

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Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
Disposition History: n/a
Disposition Reason:
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Drafter: n/a
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Margaret P. Grafeld
Declassified/Released
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EO Systematic Review
06 JUL 2006

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